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## Dear Members

### Dear Members

Lots of good information in this issue as usual, and I just want to highlight some key items here – see the related stories for more information:

- Thank you for your participation in the second quarter Economic Outlook Survey. We will continue to run this survey quarterly and report results to you.
- PCAOB will be voting on AS-5 (the new internal control standard for public company audits) on May 24, 2007.
- The SEC is expected to issue a Concept Release this summer proposing that foreign issuers be permitted to file with the Commission using International Financial Reporting Standards without reconciliation to US GAAP in 2009.
- We recently awarded three new grants for management accounting research, and need your help for one in particular – we are looking for six companies with Latin American sourcing relationships to participate in one of these research projects. Outsourcing relationships for business processes, support processes, manufacturing processes, or combinations thereof would all be of interest to the researchers.

In the coming months we will be running several member research projects to help us provide more value to you. The first of these will be a telephone survey in June and will be focused on small and medium-sized public companies. The next will be in September, and the final will be in November. We look forward to your support on these surveys when the time comes.

Two other items of note – the USC Executive Education Program is coming up fast – offered this July on the USC campus. In October, we are holding an International Financial Executives Conference in Montreal in collaboration with CMA-Canada and CIMA based in the UK.

Best regards,

John

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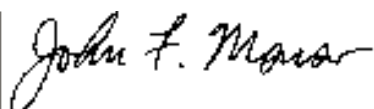
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John F. Morrow, CPA  
AICPA Vice President  
Business, Industry & Government

## Top Stories

### Q2 2007 B&I Economic Outlook Survey Results

After improving in 1Q 2007, optimism about the Economic Outlook for the US has dropped back to June 2006 levels. In 2Q only 48% of respondents said they were optimistic or very optimistic about the economic prospects for the US in the next 12 months versus 56% who stated their views as optimistic or very optimistic in the 1Q survey. Optimism on state economic outlooks showed a similar decline. This decline is in sharp contrast to respondents expectations for their own organizations where 66% of respondents stated they were optimistic or very optimistic about their organizations prospects. This was consistent with 1Q results and backed by continued stability on survey questions concerned organizations' revenue, profit, cost and hiring expectations.

### Gas Prices & Housing

The key concerns driving the drop in optimism appear to be the housing market and fuel prices. When respondents who indicated their outlook had changed were asked to identify the most significant contributing factor the most frequent issues mentioned were the housing market and gas prices. Respondents were concerned about the impact these areas would have on discretionary consumer spending. Other factors mentioned included the war in Iraq, the government (particularly the change in Congress), debt, inflation, interest rates and declining domestic investment.

Concerns about fuel prices also appeared in two other spots in the survey. In the section on challenges facing organizations the results for most questions were stable from 1Q to 2Q with the exception of the question concerning energy cost or availability. On this question the number of respondents who see this as a challenge jumped from 54% in 1Q to 66% in 2Q. However it is also worth noting that while respondents saw energy as a challenge they appear not to see it as having a major impact on their financial results as indicated by the stability on the revenue, profit and cost questions.

Concerns about fuel prices were also evident in respondents' answers to a question concerning "doomsayer predictions". When asked which of three possible predictions – significant number of sub-prime mortgage

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[Tech 2007 at the Mirage in Las Vegas – June 11-13](#)

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foreclosures, significant decline in stock prices or a significant increase in the price of gasoline – would have the most adverse effect on their business, over half responded “the increase in the price of gasoline”. Of the remainder 30% chose stock price decline while 18% chose the sub-prime mortgage foreclosures.

From an industry perspective, respondents from the Mining, Oil & Gas and Utilities industries were most likely to be optimistic in their outlook for the US Economy while those in Retail Trade and Information & Media were less likely to be optimistic for the US. Organizational optimism showed a slightly different story. Although Mining, Oil & Gas and Utilities industry respondents continued to be the most optimistic, Wholesale Trade joined Retail Trade on the less optimistic side while Information & Media respondents were about average in their optimism. It should be noted that the number of respondents for both the Utilities and Information & Media industries were relatively small.

### **Demographics**

The survey was conducted of AICPA Business & Industry members between April 10 and May 9, 2007 with 1354 respondents. Over half the respondents (52%) were CFOs, 22% were Controllers and 14% were CEOs or COOs. Sixty-five percent of respondents came from privately owned entities, 16% from public companies, 10% from government, education and not-for-profits and 5% from foreign owned companies.

More survey results are available on the [Economic Outlook Survey](#) page of the [FMCenter](#).

### **AICPA Awards Grants for Management Accounting Research**

The AICPA in collaboration with the Management Accounting Section of the American Accounting Association [announced](#) the recipients of grants awarded for management accounting research for 2007-2008.

For 2007-2008, the scope of topics outlined in the AICPA Request for Proposals was broadened to encompass strategic management, performance management and risk management - critical areas of interest reflecting the challenges that our members in business and industry face.

Grants were awarded to the following researchers to study specific business topics within these three broad topic areas:

- **Management Control of Foreign Sourcing Relationships** - Frank H. Selto and Ramiro Montealegre of the Leeds School of Business at the University of Colorado-Boulder and Thomas L.C.M.

Groot of Vrije University, Amsterdam, Netherlands

- **ERM: Critical Success Factors in the Value Creation Process** - Mark Beasley, Bonnie Hancock and Bruce Branson of the North Carolina State University College of Management's Enterprise Risk Management Initiative
- **Strategic Change, Incentive Systems and Firm Performance: Evidence from Corporate Turnarounds** - Xiaoling Chen and Jianxin Gong of the University of Illinois at Urbana-Champaign

The ERM project will look at critical success factors and the value proposition of existing ERM implementations, with the intent of providing guidance for companies that have yet to adopt ERM. Chen and Gong will use historical data from turnaround situations to examine various implications of incentives and performance measurement systems. The Selto, Groot and Montealegre project will be a field study exploring a range of ideas about management control of foreign sourcing relationships.

Selto, Groot and Montealegre are seeking six US and European companies with existing Latin American sourcing relationships for their projects. Outsourcing relationships for business processes, support processes, manufacturing processes, or combinations thereof would all be of interest to the researchers. The initial phase of the research will consist of semi-structured interviews with key individuals at the participating U.S. and European companies, followed by interviews with individuals at the Latin American source firms. If you would be interested in having your company benefit from the expertise of these world-class organizational scientists through your participation in this project, we have posted a summary of their proposal in an Invitation to Participate in Collaborative Management Accounting Research on our [FM Center](#).

For 2006-2007, the AICPA funded three projects in the area of financial and non-financial performance measures.

- Michal Matejka of the University of Michigan conducted a survey of AICPA members about incentive compensation for business unit controllers.
- Jianxin (James) Gong and Theodore Sougiannis of the University of Illinois at Champaign-Urbana analyzed non-financial performance measures in executive compensation plans.
- Shannon Anderson and Karen Sedatole of Rice University and Michigan State University, respectively, are currently in the field with a study of supply chain performance measurement systems.

Stay tuned for the results of these projects which are scheduled for completion by July 31, 2007.

## Spring Infocast Series a Great Success

The Spring Management Accounting Infocast Series closed last Thursday with ***Internet Marketing: Evaluating the Value Proposition***. This was the last in a series of three free web presentations offered by the AICPA in collaboration with CIMA, and CMA Canada, and sponsored by SAP. Our thanks to SAP and our thanks to all of you who participated in these interactive events.

In the presentation, Marc Epstein and Kristi Yuthas, authors of the Management Accounting Guideline *Evaluating the Effectiveness of Internet Marketing Initiatives*, used “U-Gas” a fictitious company operating a chain of gas stations in Wyoming and Montana to demonstrate the model outlined in the MAG for measuring the payoffs of internet marketing initiatives.

In April Epstein presented ***IT Investments: Capturing the Return***, using an actual case example from work done with a Slovenian company Istrabenz by Adriana Rejc Buhovac, co-author of their MAG, *Evaluating Performance in Information Technology* published in 2005.

On Thursday March 22 the Spring Management Accounting Infocast Series launched with ***Strategy Mapping: One Picture Worth a Thousand Words***, based on the new Management Accounting Guideline *Using Strategy Maps to Drive Performance* by Howard M. Armitage, Ph. D, FCMA, and Cam Scholey, MBA, CMA. Using the example of the Glacier Inn, a fictional ice hotel located in northern Minnesota, Armitage and Scholey constructed an actual strategy map for the Inn, illustrating the six-step process outlined in the MAG.

Archives of each of these infocast presentations along with the entire library of MAGs can be downloaded free by members from the [Management Accounting Guidelines](#) page on our FM Center.

Our Fall Management Accounting Infocast Series will include presentations on finance and accounting outsourcing, managing customer value and developing a strategic scorecard. Mark your calendars now for the third Thursday of the month- September 20, October 18, and November 20.

## Corporate Coalition Advocates Universal Health Coverage

In our last issue of [BusIndNews](#) we reported on a on a CFO.com article highlighting the amount of state legislative activity to address the burden of providing healthcare to the uninsured, and on a McKinsey survey highlighting a gap in CEO involvement in public policy issues.

[Workforce.com](http://Workforce.com) recently reported on a new Coalition to Advance Healthcare Reform. Led by Safeway CEO Steve Burd the coalition is seeking to spur political action on healthcare reform. While the coalition is not backing specific legislation, its goal is to achieve action in the current legislative session that will end in 2008.

In a [Washington Times](http://Washington Times) Op-Ed piece, Burd outlined the basic principles for the coalition. In summary, these principles are:

1. The coalition argues that costs are spiraling out of control as a result of market forces being largely absent from today's health care system. Market forces must be properly introduced that improve consumer orientation and transparency.
2. Every American should be required to carry health insurance and at the same time everyone should have access to affordable health care services with no exclusions.
3. Providing assistance for low-income individuals to obtain coverage will enable all Americans to access routine and preventive health care through traditional venues, instead of emergency rooms.
4. Health-care plans must be designed to promote healthy behavior, beginning with prevention and wellness and incorporating full-care management programs for those with chronic or acute conditions.
5. Individuals must be able to purchase health care in the same tax-advantaged way as businesses do now.

### **SEC to Consider Accepting IFRS Reporting**

A recent [SEC press release](#) announced a series of actions that it intends to take relating to the acceptance of financial reporting using International Financial Reporting Standards. With the intent of keeping on course with their [IFRS "Roadmap"](#) the SEC plans to issue a Proposing Release this summer that will request comments on the use of IFRS in financial reports filed by foreign private issuers. In addition, the Commission is planning to issue a Concept Release relating to the possibility of also providing U.S. issuers the alternative to use IFRS. Comments on both would be due in the fall.

### **New Agreement Clears Way for US/EU 'Mutually Recognized' Accounting Standard**

President Bush, German Chancellor and EU President Angela Merkel, and European Commission President Jose Manuel Barroso established the Transatlantic Economic Council at the U.S.-EU summit. The Council will work toward making the U.S. Generally Accepted Accounting Principles (GAAP) and international standards mutually recognized in

both jurisdictions -- "without the need for reconciliation" -- by 2009 or sooner. Read the [White House release](#) for more information.

## **PCAOB Inspections Report Cites Progress and Opportunities for Improvement**

In April the PCAOB issued a [press release](#) announcing its annual report on the inspections process for 2006 audits. Overall, the report states that the 2006 inspections revealed evidence that there has been progress in improving the efficiency of ICFR audits.

The Board also identified several areas in which they believe auditors have opportunities to further improve their implementation of AS 2 through:

1. Further changes in firm methodology;
2. Additional firm training and guidance;
3. Increased internal monitoring of efficiency; and
4. More rigorous communications with issuers about the role that they play in achieving efficiencies in the audit of internal control.

The complete report can be accessed at [PCAOB Inspection Report](#).

## **PCAOB to Vote on New Standard for Audits of Internal Control**

The PCAOB announced that it will hold an open meeting on May 24, 2007 to vote on a final standard on auditing internal control over financial reporting, as well as a related independence rule and conforming amendments to the Board's auditing standards. If adopted, the new auditing standard would supersede the Board's existing standard, AS2.

The [PCAOB's press release](#) regarding the open meeting may be accessed by clicking on the respective link. The meeting, which is open to the public, is scheduled for Thursday, May 24, 2007 at 9:30 a.m. at 1666 K Street, N.W., Washington, D.C. The meeting will also be available via Webcast on the [PCAOB's Web site](#).

## **SEC Meeting to Consider Internal Control Guidance for Management**

The SEC announced that it will hold an open meeting on May 23, 2007 to consider whether to adopt its [proposed interpretive guidance](#) for management regarding management's evaluation and assessment of internal control over financial reporting issued on December 20, 2006. The Commission will also consider certain related amendments to its rules related to the interpretive guidance.

## Career Corner

### Top Five Productivity Killers

The following productivity killers and the solutions recommended by a productivity guru for small and medium sized business were featured in an article on [AccountingWeb.com](#):

- **Disorganization** – Streamlining how you organize and retrieve paper and electronic files to reduce the amount of time it takes to access information is the key to this productivity killer which can cut productivity rates in half.
- **Lack of Automation** – Evaluating processes and the time it takes employees to do tasks will reveal the potential savings from this “fact” that automation boosts productivity.
- **Inefficient Internal Communications** – Companies can boost productivity by tagging email and phone communications with customers so others have the benefit of previous exchanges.
- **Lack of Planning and Workflow Processes** – Key elements of planning and workflow strategies include establishing critical paths, automating and monitoring internal procedures and establishing accountability and control.
- **Handling Paper and Data More than Once** – Centralized filing and knowledge sharing systems are the remedy for this productivity killer.

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## Tech Center

### Aberdeen Issues *The CFO's View of Telecom Cost Management Report*

To the point above about automation, a few issues ago we presented some findings of research being done by the Aberdeen group on telecom costs. The final [Aberdeen Telecom Benchmark Report](#) has been published and is available at the link.

One of the significant findings is that 49% of the respondents indicated lack of automation as an obstacle to more effective network cost management. Another interesting finding of the study *The CFO's View of*

*Telecom Cost Management*, was that 75% of financial managers site lack of staff expertise as the top challenge to effective management of telecom costs while only 33% of IT managers see staffing expertise as an obstacle.

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## Learning Links

### [New! COSO Guidance for Smaller Public Companies Self-Study Video](#)

In July 2006, COSO issued *Guidance for Smaller Public Companies Reporting* on Internal Control Over Financial Reporting to provide guidance to smaller company board members, senior management, other company staff and external auditors in cost-effectively applying *Internal Control — Integrated Framework* for assessing and reporting on the effectiveness of internal controls. This course will complete your understanding of the new COSO document.

### **Free Test Drive for New AICPA CPEExpress**

The AICPA's popular online learning library has a new name and enhanced functionality.

A 30 day free trial of CPEExpress, formerly known as InfoBytes, is being offered to introduce the new features and appearance of the product. For more info click on

[CPEExpress](#) and register for your free trial.

**Financial Training Decision-Makers:** For information on in-house training and tools to manage professional development, go to [AICPA Learning](#) or call 1-800-634-6780, Option 1

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## Upcoming Webcasts

### [Not for Profits Strategic Briefing – June 7, 1-3pm ET](#)

This Live Webcast will help you understand what is directly relevant to your 2007/08 year-ends and will provide you with a strategic look at what's important for Not-For-Profit Organizations (NPOs). The program will review recently issued accounting and auditing pronouncements impacting both preparers and auditors of NPOs. In

addition, you'll get the latest updates from AICPA's Audit Risk Alert "Not-for-Profit Industry Developments 2007/08"

### **SEC Quarterly Webcast Series – June 19, 1-3pm ET**

This second quarter installment of the AICPA's Quarterly SEC Webcast Series is sure to be loaded with content from activity at the SEC and PCAOB. Register today by clicking [here](#).

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## **Conference Spotlight**

### **Save the Date: International Financial Executives Conference – Oct 3-5 Montreal**

Senior financial executives who want to broaden their international perspective should plan to attend this conference. Sponsored by the AICPA, CMA Canada, and CIMA (the Chartered Institute of Management Accountants), this conference offers senior executives and their high-performing staff members an opportunity to expand networks and knowledge beyond local borders. Mark your calendar for Oct. 3 to 5 at the [Intercontinental Hotel](#) in Montreal, Canada. Look for more information in the next issue of *BusIndNews* and in the May B&I Supplement to the CPA Letter.

### **AICPA/USC Executive Education: Financial Executive Program – July 11-13**

The AICPA in collaboration with the USC Marshall School of Business will once again be offering the executive education program designed last year for our members in business and industry. This is a terrific opportunity to have an intensive, interactive case-based learning experience with a limited number of your peers on the campus of one of the premier business schools in the country. Mark your calendars now – more info will be available soon at the [AICPA Conferences](#) website.

### **AICPA National Not-For-Profit Industry Conference June 19-21**

The AICPA National Not-For-Profit Industry Conference is a comprehensive forum that deals with the challenges facing nonprofit practitioners and financial executives today. It's where you'll find out the latest information on the impact of tax, management, auditing and accounting issues pertaining to NPOs. You'll also receive training in operational strategies that are so crucial to the well-being of an NPO.

Highlights of this year's conference include keynote speaker Steve Gunderson of the Council on Foundations, 16 value-added pre-conference workshops and special breakfast and lunch niche sessions. To register click on [2007 NPO Conference](#).

### **Tech 2007 at the Mirage in Las Vegas – June 11-13**

Created exclusively for CPAs, IT consultants, and anyone who implements or uses technology in their organization. Here is some of what's new for 2007:

- Keynote presentations, featuring strategists from Google and Adobe
- TECH Update 2007 with Randy Johnson
- Tomorrow's Technologies with Rick Richardson

Register today at [Tech+](#).

### **Book it Now – 2007 Controller's Workshop in Las Vegas**

One of the AICPA's most popular sell-out events, the [Controllers Workshop West](#), will be held this year at Caesar's Palace in Las Vegas on July 19-20. Controllers Workshop is uniquely designed to help you increase the contributions you make to your company's strategic objectives and will once again this year be the forum for presenting our 2007 Hall of Fame awards. Click on the link to secure your spot.

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